

**THE OFFICE OF REGULATORY STAFF**

**DIRECT TESTIMONY**

**OF**

**SHARON G. SCOTT**

**AUGUST 17, 2011**



**DOCKET NO. 2011-47-WS**

**Application of Carolina Water Service, Inc.  
for Approval of an Increase in Its Rates for  
Water and Sewer Services Provided to All of  
Its Service Areas in South Carolina**

**DIRECT TESTIMONY OF SHARON G. SCOTT**

**FOR**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO: 2011-47-WS**

**IN RE: APPLICATION OF CAROLINA WATER SERVICE, INC. FOR  
APPROVAL OF AND INCREASE IN ITS RATES FOR WATER AND SEWER  
SERVICES PROVIDED TO ALL OF ITS SERVICE AREAS IN SOUTH  
CAROLINA**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND  
OCCUPATION.**

**A.** My name is Sharon G. Scott. My business address is 1401 Main Street,  
Suite 900, Columbia, South Carolina, 29201. I am employed by the South  
Carolina Office of Regulatory Staff ("ORS") as Senior Manager for Rate Cases.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND  
EXPERIENCE.**

**A.** I received a Bachelor of Science in Business Administration, with a major  
in Accounting from the University of South Carolina in May 1983 and a Master  
of Business Administration from Webster University in May 2000. I began my  
career with the South Carolina Public Service Commission ("Commission") in  
July 1983. While employed there, I participated in numerous rate cases and  
various other filings for electric, gas, telecommunications, water and wastewater  
utilities. In January 2005, I began my employment with ORS and became

1 manager of Water and Wastewater and Telecommunications Audits. Currently, I  
2 am the Senior Manager for all rate cases.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
4 **PROCEEDING?**

5 **A.** The purpose of my testimony is to set forth my findings and  
6 recommendations resulting from ORS's examination of the application of Carolina  
7 Water Service, Inc. ("CWS", "Company" or "Applicant") in this docket. The  
8 application was filed on April 15, 2011.

9 **Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE**  
10 **EXAMINATION OF THE COMPANY'S APPLICATION.**

11 **A.** ORS's examination of the Company's application for Adjustments of  
12 Rates and Charges consisted of three major steps. In step one, ORS verified that  
13 the operating experience and rate base, reported by the utility in its application,  
14 were supported by the Company's accounting books and records for the test year.  
15 In the second step, ORS tested the underlying transactions in the books and  
16 records for the same period to ensure that the transactions were adequately  
17 supported, had a stated business purpose, were allowable for ratemaking purposes  
18 and were properly recorded. Lastly, our examination consisted of adjusting, as  
19 necessary, the revenues, expenditures and capital investments to normalize the  
20 Company's operating experience and rate base, in accordance with generally  
21 accepted regulatory principles and prior Commission orders.

22

1 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR**  
2 **TESTIMONY.**

3 **A.** I have attached the following exhibits to my testimony relating to the  
4 Application of Carolina Water Service, Inc.:

- 5 • Audit Exhibit SGS-1: Operating Experience, Rate Base, and Rates of Return  
6 for Combined Operations
- 7 • Audit Exhibit SGS-2: Operating Experience, Rate Base, and Rates of Return  
8 for Water Operations
- 9 • Audit Exhibit SGS-3: Operating Experience, Rate Base, and Rates of Return  
10 for Sewer Operations
- 11 • Audit Exhibit SGS-4: Explanation of Accounting and Pro forma Adjustments
- 12 • Audit Exhibit SGS-5: Computation of Depreciation and Amortization  
13 Expense
- 14 • Audit Exhibit SGS-6: Computation of Income Taxes
- 15 • Audit Exhibit SGS-7: Cash Working Capital Allowance
- 16 • Audit Exhibit SGS-8: Return on Equity

17 These exhibits were either prepared by me or were prepared under my direction  
18 and supervision in compliance with recognized accounting and regulatory  
19 procedures for water and wastewater utility rate cases. These exhibits show  
20 various aspects of CWS's operations and financial position.

1   **Q.   PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT SGS-1 FOR**  
2       **COMBINED   OPERATIONS   AND   ELABORATE   ON   THE**  
3       **CALCULATIONS.**

4   **A.**       Audit Exhibit SGS-1 shows CWS's operating experience, rate base, and  
5       rates of return for water and wastewater operations for the test year ended  
6       September 30, 2010. The exhibit's format is designed to reflect the Application per  
7       books and ORS's proposed accounting and pro forma adjustments necessary to  
8       normalize the results of CWS's test year operations. The water and wastewater  
9       operations are also shown separately in Audit Exhibit SGS-2 and Audit Exhibit  
10      SGS-3.

11      Column (1) shows the Application per books calculated by CWS for the test year  
12      ended September 30, 2010. ORS verified total operating revenues of \$7,088,036,  
13      total operating expenses of \$6,338,567 and net income for return of \$86,345 to the  
14      Company's books and records. ORS verified total rate base of \$23,989,809. Total  
15      per book rate of return of 0.36% was calculated by dividing net income for return  
16      by total rate base.

17      Column (2) shows ORS's proposed accounting and pro forma adjustments designed  
18      to normalize the Application per books. An explanation of each adjustment is  
19      contained in Audit Exhibit SGS-4.

20      Column (3) shows ORS's result of a normalized test year for CWS by adding  
21      columns (1) and (2). After the accounting and pro forma adjustments, net income  
22      for return of \$1,570,087 was computed using total operating revenues of  
23      \$7,940,473, less total operating expenses of \$6,384,723, and adding customer

1 growth of \$14,337. Total rate base amounted to \$23,533,930 producing a return on  
2 rate base of 6.67%. As shown on Audit Exhibit SGS-8, the resulting return on  
3 equity was 6.76%.

4 Column (4) shows Applicant's proposed increase recalculated by ORS and the  
5 calculation of taxes and customer growth associated with the proposed increase.

6 An explanation of each adjustment is contained in Audit Exhibit SGS-4.

7 Column (5) shows the effect of the Applicant's proposed rate increase by adding  
8 columns (3) and (4). Net income for return of \$3,404,634 was computed using total  
9 operating revenues of \$10,908,995 less total operating expenses of \$7,537,615, and  
10 adding customer growth of \$33,254. Total rate base amounted to \$23,533,930  
11 producing a return on rate base of 14.47%. As shown on Audit Exhibit SGS -8, the  
12 resulting return on equity is 22.39%.

13 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT SGS-4.**

14 **A.** For comparative purposes, ORS and Applicant's adjustments are both  
15 presented in Audit Exhibit SGS-4. The amounts stated in the following  
16 adjustments reflect combined operations.

17 Adjustments 1 - Service Revenues – The ORS Water and Wastewater Department  
18 proposes to normalize water and sewer revenues for the test year. Details of the  
19 water service revenue adjustment of \$260,064 and the sewer service revenue  
20 adjustment of \$155,769 are discussed in the direct testimony of ORS witness Willie  
21 Morgan.

Adjustment 2 – Miscellaneous Revenues – The ORS Water and Wastewater

Department proposes to adjust miscellaneous revenues for the test year. Details of the adjustment for \$94,397 are discussed in the direct testimony of ORS witness Willie Morgan.

Adjustment 3 – Uncollectible Accounts - The ORS Water and Wastewater

Department proposes to adjust for uncollectible accounts. The adjustment of \$342,207 was provided by ORS witness Willie Morgan and is discussed in his direct testimony.

Adjustment 4 – Salaries and Wages - ORS proposes to adjust operators' salaries by

annualizing the latest available salary information as of June 2011. A portion of each employee's salary was allocated to CWS in accordance with Equivalent Residential Connection ("ERC") amounts. Vacant positions were removed and allocations were updated to reflect the most recent information. ORS computed annualized operators' salaries of \$1,133,743, less per book salaries of \$1,147,661, for an adjustment of (\$13,918).

Adjustment 5 – Purchased Sewer and Water - ORS and the Company propose to

remove \$249,878 for purchased water and sewer pass-through costs from operating expenses. These costs are paid directly by the customer.

Adjustment 6 – Remove Water Project - ORS proposes to remove costs for a water

project that was expensed in the test year. The total amount of (\$45,500) should be capitalized.

1        Adjustment 7 – Transportation Expenses – ORS proposes to adjust transportation  
2        expenses to reflect allocated cost for employee usage of thirty-one CWS vehicles.  
3        Total adjusted transportation costs which include fuel, auto repairs and tires, auto  
4        licenses and other transportation expenses were \$2,408,542. In computing the  
5        adjusted annual costs, ORS disallowed (\$27,008) of expenditures which were non-  
6        allowable, had no apparent business purpose or lacked sufficient support. ORS  
7        computed annual expenses of \$6,036 per vehicle instead of \$6,104 as proposed by  
8        the Company. ORS removed (\$63,364) from the per book cost of \$182,176 to  
9        reflect the test year level of \$118,812 for transportation expenses.

10       Adjustment 8- Operating Expenses Charged to Plant – ORS proposes to adjust for  
11       a portion of employees' salaries, taxes, and benefits booked to plant for time spent  
12       on capital projects. ORS updated the capitalization ratio to 19.53% and computed  
13       an adjustment of \$69,745 to reduce the capitalized salaries charged to plant.

14       Adjustment 9 – Salaries and Wages – ORS proposes to adjust office salaries by  
15       annualizing the latest available salary information as of June 2011. A portion of  
16       each employee's salary was allocated to CWS in accordance with ERC amounts.  
17       Vacant positions were removed and allocations were updated to reflect the most  
18       recent information. ORS computed annualized office salaries of \$405,355 less per  
19       book salaries of \$475,340, for an adjustment of (\$69,985).

20       Adjustment 10 – Office Supplies & Other Office Expense – ORS proposes to  
21       adjust office supplies and other office expenses to remove non-allowable  
22       expenditures of (\$41,144). These non-allowable expenditures included  
23       undocumented expenses and items with no apparent business purpose.



1        Adjustment 11- Regulatory Commission Expense – ORS proposes to amortize rate  
2        case expenses incurred for this rate case proceeding. ORS verified documented rate  
3        case expenses of \$177,054 as of July 2011. The rate case expenses included costs  
4        for legal fees, consulting, capitalized time, temporary staffing and miscellaneous  
5        items related to filing the application and notice to the customers. Total rate case  
6        expenses were amortized over a three-year period resulting in the test year amount  
7        of \$59,018, less the per book amount of \$266,404, for an adjustment of (\$207,386).

8        Adjustment 12 – Pension & Other Benefits – ORS proposes to annualize pension  
9        and health benefits associated with the salary adjustment for operators and office  
10       employees. ORS did not include pension and health benefits for part-time  
11       employees. Total ORS computed pension and other benefits was \$294,542, less  
12       the per book amount of \$335,006, resulting in an adjustment of (\$40,464).

13       Adjustment 13 – Non-Utility Miscellaneous Income and Expenses - ORS proposes  
14       to reduce operating expenses for items not related to utility operations. The total  
15       adjustment removes (\$13,059) from operating expenses.

16       Adjustment 14 – Interest on Customer Deposits – ORS proposes to annualize  
17       interest on customer deposits by using the customer deposit balance of \$193,657  
18       at year end and the PSC approved interest rate of 3.5%. ORS computed interest  
19       on customer deposits of \$6,778, less the per book amount of \$5,501, for an  
20       adjustment of \$1,277. During ORS's account analysis, it was discovered that the  
21       accrued interest account was reduced by (\$253,041) to reflect a true-up for  
22       customer deposits. The company stated that in 2009 they did a reconciliation of

customer accounts receivable and in the process trued-up customer deposits and accrued interest. This issue is further discussed by ORS witness Dawn M. Hipp.

Adjustment 15 – Depreciation Expense – ORS proposes to annualize depreciation expense and adjust for net plant additions, capitalized time, and disallowed plant. The details of the depreciation expense adjustment are shown in Audit Exhibit SGS-5. The depreciation rates were recommended by the ORS Water and Wastewater Department. ORS's total depreciation expense amounted to \$963,581, less the per book amount of \$1,011,086, for a total adjustment of (\$47,505.)

Adjustment 16 – Amortization of Contributions in Aid of Construction ("CIAC") – ORS proposes to adjust the amortization of CIAC which includes contributions after the test year of (\$856,576). ORS used total CIAC of (\$22,534,763) times 1.50%, for an amortization amount of (\$338,021). The per book amount was (\$324,831), resulting in an adjustment of (\$13,190). See Audit Exhibit SGS-5.

Adjustment 17 – Payroll Taxes – ORS proposes to adjust for payroll taxes associated with the adjusted test year salaries. The payroll taxes include FICA, and state and federal unemployment taxes. ORS computed total taxes of \$123,297, less the per book amount of \$130,342, resulting in an adjustment of (\$7,045.)

Adjustment 18 – Utility/Commission Taxes – ORS proposes to adjust for gross receipts and utility/commission taxes. A total factor of .00951022, comprised of the SCDOR factor of .003 and the PSC/ORS factor of .00651022, was used to compute this adjustment. Using total pro forma revenues of \$852,437 multiplied by .00951022 resulted in an adjustment of \$8,106.

1        Adjustment 19 – Income Taxes – ORS proposes to adjust income taxes after  
2        accounting and pro forma adjustments. ORS used a 5% rate for state income taxes  
3        and a composite rate of 35% for federal income taxes. Details of the computation  
4        of income taxes are shown in SGS-6.

5        Adjustment 20 – Interest During Construction – ORS proposes to remove the  
6        income associated with capitalized interest for projects under construction. CWS  
7        does not propose to include construction work in progress (“CWIP”) in rate base,  
8        and therefore, the income associated with CWIP is not included as an offset to  
9        expenses. The adjustment amounted to (\$9,437).

10       Adjustment 21 – Interest on Debt – ORS proposes to eliminate interest expense of  
11       (\$653,687) from the computation of net income. Interest expense is considered for  
12       the computation of the operating margin.

13       Adjustment 22 – Customer Growth – ORS proposes to adjust for customer growth  
14       after the accounting and pro forma adjustments. The ORS Water and Wastewater  
15       Department computed growth factors of 1.19126% for water and .87421% for  
16       sewer.

17       Adjustment 23 - Vehicles – ORS proposes to adjust for the allocation of vehicles to  
18       CWS employees. Each vehicle is allocated according to the percentage of work  
19       each employee performs for CWS. In addition, ORS removed unused and  
20       inoperable vehicles observed during the site visit of the Water and Wastewater  
21       Department. ORS made an adjustment to remove (\$365,155) from per book plant  
22       in service of \$654,785, to reflect the allocated vehicles for the test year of \$289,630.

1        Adjustment 24 - Plant Additions – ORS proposes to adjust for known and  
2        measurable net plant additions after the test year. The Company provided actual  
3        plant additions and retirements of \$1,935,741 through June 2011. The Company's  
4        application amount of \$1,251,683 was based on actual and estimated expenditures.  
5        Based upon ORS's examination, \$59,340 of these proposed additions were  
6        disallowed. ORS proposes an adjustment to include the remaining net plant  
7        additions of \$1,876,401.

8        Adjustment 25 - Capitalized Wages – ORS proposes to adjust plant for a portion of  
9        operators' salaries, taxes, and benefits associated with capital projects for the test  
10       year. ORS's capitalized salary adjustment reduces plant in service by (\$69,745)  
11       as reflected in ORS Adjustment 8.

12       Adjustment 26 - Gross Plant In Service – ORS proposes to capitalize expenditures  
13       of \$45,500 associated with a water project that was expensed in the test year.

14       Adjustment 27 - Computers – ORS proposes to update allocated computers and  
15       remove a portion of the Customer Care and Billing System ("CC&B) costs.  
16       Mainframe computers, mini-computers, computer systems costs, and software are  
17       allocated to the various subsidiaries based on ERC's. ORS recalculated computers  
18       allocated to CWS and removed fully depreciated computers. Additionally, ORS  
19       removed 74.65% or (\$5,322,971) from the initial Customer Care and Billing  
20       System costs of \$7,126,679. ORS also removed other non-allowable expenditures  
21       of \$108,878 related to Project Phoenix. The development of the 74.65% factor  
22       was provided by the Water and Wastewater Department and is discussed by ORS

witness Dawn M. Hipp. The result of the adjustment is a reduction to CWS allocated plant of (\$397,643).

Adjustment 28 - Excess Book Value – ORS proposes to remove net excess book value as approved in previous rate cases. The total excess book value of \$1,937,905 is amortized at 1.50% and is shown as a reduction to depreciation expense of (\$29,069) on Audit Exhibit SGS- 5. Excess book value of (\$743,227), which is net of the accumulated amortization, is removed from plant in service.

Adjustment 29 - Non-allowable Plant – ORS proposes to reduce plant by (\$508,123) to reflect non-allowable plant and other items. During the site visit of the ORS Water and Wastewater Department, it was discovered that several projects were not complete at the Georgetown/Lincolnshire and Pocalla/Sumter sites. These costs have been removed along with DHEC costs that should have been expensed in a previous year. Details and description of the non-allowable plant items are discussed in the direct testimony of ORS witness Willie J. Morgan.

Adjustment 30 – Accumulated Depreciation - ORS proposes to adjust accumulated depreciation by \$682,310 to reflect depreciation expense for general plant, pro forma retirements after test year, vehicle and computer adjustments and non-allowable plant.

Adjustment 31- Cash Working Capital – ORS proposes to adjust cash working capital for accounting and pro forma adjustments using a 45-day or 12.50% allowance of maintenance and general expenses. See Audit Exhibit SGS-7.

1        Adjustment 32 – CIAC After Test Year – ORS proposes to adjust CIAC to reflect  
2        contributions made after the test year of (\$856,576).

3        Adjustment 33 – CIAC Amortization – ORS proposes to adjust CIAC by \$13,190  
4        to reflect the amortization from adjustment #16.

5        Adjustment 34 – Annualize Customer Deposits – ORS proposes to adjust for the  
6        effect of annualized customer deposits on rate base of (\$1,277) as shown in  
7        Adjustment #14.

8        Adjustment 35 – Correct Customer Deposits Balance - ORS proposes to adjust  
9        customer deposits by (\$10,791) to reflect the correct per book balance for sewer  
10       operations.

11       Adjustment 36 – Service Revenue - As provided by the ORS Water and  
12       Wastewater Department, CWS's proposed rates would produce additional revenues  
13       of \$1,973,636 for water operations and \$726,254 for sewer operations. Details of  
14       this adjustment are shown in direct testimony of ORS witness Willie Morgan.

15       Adjustment 37 – Miscellaneous Revenue – As provided by the ORS Water and  
16       Wastewater Department, an adjustment was made for \$269,437 for miscellaneous  
17       revenue associated with Company's proposed rate increase. Details of the  
18       adjustment are shown in the direct testimony of ORS witness Willie Morgan.

19       Adjustment 38 – Uncollectible Revenue – ORS proposes to adjust for uncollectible  
20       accounts by (\$805) for the Company's proposed rate increase. The uncollectible  
21       amount was provided by ORS witness Willie Morgan.

22       Adjustment 39 – Taxes Other Than Income – ORS proposes to adjust gross receipts  
23       and utility/commission taxes associated with the revenues after the Company's

1 proposed increase. A total factor of .00951022, comprised of the SCDOR factor of  
2 .003 and the PSC/ORS factor of .00651022, was used to compute this adjustment.  
3 ORS's total adjustment is \$28,232 using the Company's proposed increase of  
4 \$2,968,522 and .00951022.

5 Adjustment 40 – Income Taxes – ORS proposes to adjust for income taxes  
6 associated with the Company's proposed rate increase. See Audit Exhibit SGS-6  
7 for the computation of income taxes.

8 Adjustment 41– Customer Growth – ORS proposes to adjust for customer growth  
9 after the Company's proposed increase. The growth factors of 1.04167% for  
10 water and .70796% for wastewater were computed by the ORS Water and  
11 Wastewater Department.

12 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

13 **A.** Audit Exhibit SGS-5 shows the Depreciation Expense and Amortization  
14 of CIAC Adjustment. Audit Exhibit SGS-6 shows the Computation of Income  
15 Taxes. Audit Exhibit SGS-7 shows the calculation of the Cash Working Capital  
16 Allowance. Audit Exhibit SGS-8 shows the calculation of Return on Equity.

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 **A.** Yes.

**Carolina Water Service, Inc.**  
**Docket No. 2011-47-WS**  
**Operating Experience, Rate Base and Rates of Return**  
**For the Test Year Ended September 30, 2010**  
**Combined Operations**

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(5) After Applicant's Proposed Increase \$
<b><u>Operating Revenues:</u></b>					
Service Revenues - Water	2,173,555	260,064 (A)	2,433,619	1,973,636 (S)	4,407,255
Service Revenues - Sewer	5,170,766	155,769 (A)	5,326,535	726,254 (S)	6,052,789
Miscellaneous Revenues	164,957	94,397 (B)	259,354	269,437 (T)	528,791
Uncollectible Accounts	(421,242)	342,207 (C)	(79,035)	(805) (U)	(79,840)
<b><u>Total Operating Revenues</u></b>	<b><u>7,088,036</u></b>	<b><u>852,437</u></b>	<b><u>7,940,473</u></b>	<b><u>2,968,522</u></b>	<b><u>10,908,995</u></b>
<b><u>Operating Expenses</u></b>					
Maintenance Expenses	2,749,597	196,841 (D)	2,946,438	0	2,946,438
General Expenses	1,927,393	(372,038) (E)	1,555,355	0	1,555,355
Interest on Customer Deposits	0	1,277 (F)	1,277	0	1,277
Depreciation	1,011,086	(47,505) (G)	963,581	0	963,581
Amortization of CIAC	(324,831)	(13,190) (H)	(338,021)	0	(338,021)
Taxes Other Than Income	790,756	1,061 (I)	791,817	28,232 (V)	820,049
Income Taxes - State & Federal	203,280	279,710 (J)	482,990	1,124,660 (W)	1,607,650
Amortization Investment Tax Credit	(8,852)	0	(8,852)	0	(8,852)
Amortization of Plant Acq. Adj.	(9,862)	0	(9,862)	0	(9,862)
<b><u>Total Operating Expenses</u></b>	<b><u>6,338,567</u></b>	<b><u>46,156</u></b>	<b><u>6,384,723</u></b>	<b><u>1,152,892</u></b>	<b><u>7,537,615</u></b>
<b><u>Total Operating Income</u></b>	<b><u>749,469</u></b>	<b><u>806,281</u></b>	<b><u>1,555,750</u></b>	<b><u>1,815,630</u></b>	<b><u>3,371,380</u></b>
Less: Interest During Construction	9,437	(9,437) (K)	0	0	0
Less: Interest on Debt	653,687	(653,687) (L)	0	0	0
Plus: Customer Growth	0	14,337 (M)	14,337	18,917 (X)	33,254
<b><u>Net Income for Return</u></b>	<b><u>86,345</u></b>	<b><u>1,483,742</u></b>	<b><u>1,570,087</u></b>	<b><u>1,834,547</u></b>	<b><u>3,404,634</u></b>
<b><u>Original Cost Rate Base:</u></b>					
Gross Plant in Service	52,220,287	(161,992) (N)	52,058,295	0	52,058,295
Accumulated Depreciation	(8,795,680)	682,310 (O)	(8,113,370)	0	(8,113,370)
Net Plant in Service	43,424,607	520,318	43,944,925	0	43,944,925
Cash Working Capital	683,468	(120,743) (P)	562,725	0	562,725
Contributions in Aid of Construction	(18,096,671)	(843,386) (Q)	(18,940,057)	0	(18,940,057)
Accumulated Deferred Income Taxes	(1,485,214)	0	(1,485,214)	0	(1,485,214)
Customer Deposits	(208,584)	(12,068) (R)	(220,652)	0	(220,652)
Advances in Aid of Construction	(1,600)	0	(1,600)	0	(1,600)
Plant Acquisition Adjustment	(326,197)	0	(326,197)	0	(326,197)
<b><u>Total Rate Base</u></b>	<b><u>23,989,809</u></b>	<b><u>(455,879)</u></b>	<b><u>23,533,930</u></b>	<b><u>0</u></b>	<b><u>23,533,930</u></b>
<b><u>Return on Rate Base</u></b>	<b><u>0.36%</u></b>		<b><u>6.67%</u></b>		<b><u>14.47%</u></b>
<b><u>Operating Margin - Note</u></b>	<b><u>-8.00%</u></b>		<b><u>10.00%</u></b>		<b><u>24.10%</u></b>
<b><u>Interest Expense</u></b>	<b><u>653,687</u></b>	<b><u>122,335</u></b>	<b><u>776,022</u></b>		<b><u>776,022</u></b>

Note: Operating Margin is computed using Net Income for Return less Interest Expense and divided by Total Operating Revenues.



**Carolina Water Service, Inc.**  
**Docket No. 2011-47-WS**  
**Operating Experience, Rate Base and Rates of Return**  
**For the Test Year Ended September 30, 2010**  
**Water Operations**

<u>Description</u>	(1) <u>Application Per Books</u> \$	(2) <u>Accounting &amp; Pro Forma Adjustments</u> \$	(3) <u>After Accounting &amp; Pro Forma Adjustments</u> \$	(4) <u>Applicant's Proposed Increase</u> \$	(6) <u>After Applicant's Proposed Increase</u> \$
<b><u>Operating Revenues:</u></b>					
Service Revenues - Water	2,173,555	260,064 (A)	2,433,619	1,973,636 (S)	4,407,255
Miscellaneous Revenues	95,741	29,603 (B)	125,344	114,115 (T)	239,459
Uncollectible Accounts	(244,489)	107,316 (C)	(137,173)	(341) (U)	(137,514)
<b><u>Total Operating Revenues</u></b>	<b><u>2,024,807</u></b>	<b><u>396,983</u></b>	<b><u>2,421,790</u></b>	<b><u>2,087,410</u></b>	<b><u>4,509,200</u></b>
<b><u>Operating Expenses</u></b>					
Maintenance Expenses	930,053	160,588 (D)	1,090,641	0	1,090,641
General Expenses	1,118,658	(215,886) (E)	902,772	0	902,772
Interest on Customer Deposits	0	741 (F)	741	0	741
Depreciation	393,833	(33,483) (G)	360,350	0	360,350
Amortization of CIAC	(107,375)	(7,691) (H)	(115,066)	0	(115,066)
Taxes Other Than Income	458,955	(311) (I)	458,644	19,852 (V)	478,496
Income Taxes - State & Federal	117,983	(300,251) (J)	(182,268)	790,841 (W)	608,573
Amortization Investment Tax Credit	(5,138)	0	(5,138)	0	(5,138)
Amortization of Plant Acq. Adj.	(4,673)	0	(4,673)	0	(4,673)
<b><u>Total Operating Expenses</u></b>	<b><u>2,902,296</u></b>	<b><u>(396,293)</u></b>	<b><u>2,506,003</u></b>	<b><u>810,693</u></b>	<b><u>3,316,696</u></b>
<b><u>Total Operating Income</u></b>	<b><u>(877,489)</u></b>	<b><u>793,276</u></b>	<b><u>(84,213)</u></b>	<b><u>1,276,717</u></b>	<b><u>1,192,504</u></b>
Less: Interest During Construction	5,477	(5,477) (K)	0	0	0
Less: Interest on Debt	379,400	(379,400) (L)	0	0	0
Plus: Customer Growth	0	0 (M)	0	14,206 (X)	14,206
<b><u>Net Income for Return</u></b>	<b><u>(1,262,366)</u></b>	<b><u>1,178,153</u></b>	<b><u>(84,213)</u></b>	<b><u>1,290,923</u></b>	<b><u>1,206,710</u></b>
<b><u>Original Cost Rate Base:</u></b>					
Gross Plant in Service	17,252,817	(256,924) (N)	16,995,893	0	16,995,893
Accumulated Depreciation	(3,437,523)	319,673 (O)	(3,117,850)	0	(3,117,850)
Net Plant in Service	13,815,294	62,749	13,878,043	0	13,878,043
Cash Working Capital	313,458	(64,281) (P)	249,177	0	249,177
Contributions in Aid of Construction	(6,044,637)	(553,263) (Q)	(6,597,900)	0	(6,597,900)
Accumulated Deferred Income Taxes	(862,018)	0	(862,018)	0	(862,018)
Customer Deposits	(127,325)	(741) (R)	(128,066)	0	(128,066)
Advances in Aid of Construction	(800)	0	(800)	0	(800)
Plant Acquisition Adjustment	(168,804)	0	(168,804)	0	(168,804)
<b><u>Total Rate Base</u></b>	<b><u>6,925,168</u></b>	<b><u>(555,536)</u></b>	<b><u>6,369,632</u></b>	<b><u>0</u></b>	<b><u>6,369,632</u></b>
<b><u>Return on Rate Base</u></b>	<b><u>-18.23%</u></b>		<b><u>-1.32%</u></b>		<b><u>18.94%</u></b>
<b><u>Operating Margin</u></b>	<b><u>-81.08%</u></b>		<b><u>-12.15%</u></b>		<b><u>22.10%</u></b>
<b><u>Interest Expense</u></b>	<b><u>379,400</u></b>	<b><u>(169,364)</u></b>	<b><u>210,036</u></b>		<b><u>210,036</u></b>

Note: Operating Margin is computed using Net Income for Return less Interest Expense and divided by Total Operating Revenues.

**Carolina Water Service, Inc.**  
**Docket No. 2011-47-WS**  
**Operating Experience, Rate Base and Rates of Return**  
**For the Test Year Ended September 30, 2010**  
**Sewer Operations**

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(6) After Applicant's Proposed Increase \$
<b><u>Operating Revenues:</u></b>					
Service Revenues - Sewer	5,170,766	155,769 (A)	5,326,535	726,254 (S)	6,052,789
Miscellaneous Revenues	69,216	64,794 (B)	134,010	155,322 (T)	289,332
Uncollectible Accounts	(176,753)	234,891 (C)	58,138	(464) (U)	57,674
<b><u>Total Operating Revenues</u></b>	<b><u>5,063,229</u></b>	<b><u>455,454</u></b>	<b><u>5,518,683</u></b>	<b><u>881,112</u></b>	<b><u>6,399,795</u></b>
<b><u>Operating Expenses</u></b>					
Maintenance Expenses	1,819,544	36,253 (D)	1,855,797	0	1,855,797
General Expenses	808,735	(156,152) (E)	652,583	0	652,583
Interest on Customer Deposits	0	536 (F)	536	0	536
Depreciation	617,253	(14,022) (G)	603,231	0	603,231
Amortization of CIAC	(217,456)	(5,499) (H)	(222,955)	0	(222,955)
Taxes Other Than Income	331,801	1,372 (I)	333,173	8,380 (V)	341,553
Income Taxes - State & Federal	85,297	579,961 (J)	665,258	333,819 (W)	999,077
Amortization Investment Tax Credit	(3,714)	0	(3,714)	0	(3,714)
Amortization of Plant Acq. Adj.	(5,189)	0	(5,189)	0	(5,189)
<b><u>Total Operating Expenses</u></b>	<b><u>3,436,271</u></b>	<b><u>442,449</u></b>	<b><u>3,878,720</u></b>	<b><u>342,199</u></b>	<b><u>4,220,919</u></b>
<b><u>Total Operating Income</u></b>	<b><u>1,626,958</u></b>	<b><u>13,005</u></b>	<b><u>1,639,963</u></b>	<b><u>538,913</u></b>	<b><u>2,178,876</u></b>
Less: Interest During Construction	3,960	(3,960) (K)	0	0	0
Less: Interest on Debt	274,287	(274,287) (L)	0	0	0
Plus: Customer Growth	0	14,337 (M)	14,337	4,711 (X)	19,048
<b><u>Net Income for Return</u></b>	<b><u>1,348,711</u></b>	<b><u>305,589</u></b>	<b><u>1,654,300</u></b>	<b><u>543,624</u></b>	<b><u>2,197,924</u></b>
<b><u>Original Cost Rate Base:</u></b>					
Gross Plant in Service	34,967,470	94,932 (N)	35,062,402	0	35,062,402
Accumulated Depreciation	(5,358,157)	362,637 (O)	(4,995,520)	0	(4,995,520)
Net Plant in Service	29,609,313	457,569	30,066,882	0	30,066,882
Cash Working Capital	370,010	(56,462) (P)	313,548	0	313,548
Contributions in Aid of Construction	(12,052,034)	(290,123) (Q)	(12,342,157)	0	(12,342,157)
Accumulated Deferred Income Taxes	(623,196)	0	(623,196)	0	(623,196)
Customer Deposits	(81,259)	(11,327) (R)	(92,586)	0	(92,586)
Advances in Aid of Construction	(800)	0	(800)	0	(800)
Plant Acquisition Adjustment	(157,393)	0	(157,393)	0	(157,393)
<b><u>Total Rate Base</u></b>	<b><u>17,064,641</u></b>	<b><u>99,657</u></b>	<b><u>17,164,298</u></b>	<b><u>0</u></b>	<b><u>17,164,298</u></b>
<b><u>Return on Rate Base</u></b>	<b><u>7.90%</u></b>		<b><u>9.64%</u></b>		<b><u>12.81%</u></b>
<b><u>Operating Margin</u></b>	<b><u>21.22%</u></b>		<b><u>19.72%</u></b>		<b><u>25.50%</u></b>
<b><u>Interest Expense</u></b>	<b><u>274,287</u></b>	<b><u>291,699</u></b>	<b><u>565,986</u></b>		<b><u>565,986</u></b>

Note: Operating Margin is computed using Net Income for Return less Interest Expense and divided by Total Operating Revenues.

**Carolina Water Service, Inc.**  
**Docket No. 2011-47-WS**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended September 30, 2010**

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<b><u>Accounting and Pro forma Adjustments</u></b>			
<b><u>Operating Revenues</u></b>			
<b>(A) Service Revenues</b>			
1 To adjust service revenues to reflect test year customer billings.			
Per ORS	415,833	260,064	155,769
Per CWS	293,730	250,579	43,151
<b>(B) Miscellaneous Revenues</b>			
2 To adjust miscellaneous revenues to reflect various adjustment of the Water and Wastewater Department.			
Per ORS	94,397	29,603	64,794
Per CWS	0	0	0
<b>(C) Uncollectible Accounts</b>			
3 To adjust uncollectible accounts to reflect actual bad debt.			
Per ORS	342,207	107,316	234,891
Per CWS	(29,661)	(28,186)	(1,475)
<b><u>(D) Maintenance Expenses</u></b>			
<b>Salaries &amp; Wages</b>			
4 To annualize operators' salaries for the test year.			
Per ORS	(13,918)	(8,072)	(5,846)
Per CWS	134,377	77,990	56,387
<b>Purchased Sewer &amp; Water</b>			
5 To adjust for purchased sewer and water pass-through costs.			
Per ORS	249,878	210,484	39,394
Per CWS	249,878	210,484	39,394
<b>Maintenance and Repair</b>			
6 To remove water project write-off from operating expenses.			
Per ORS	(45,500)	(45,500)	0
Per CWS	0	0	0

Carolina Water Service, Inc.  
Docket No. 2011-47-WS  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended September 30, 2010

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<b>Transportation</b>			
7 To adjust for allocated transportation expense including fuel and auto repairs.			
Per ORS	(63,364)	(36,776)	(26,588)
Per CWS	(27,880)	(16,181)	(11,699)
<b>Operating Expenses Charged to Plant</b>			
8 To adjust operating expense charged to plant (capitalized time) for actual salary expenses and associated taxes and benefits.			
Per ORS	69,745	40,452	29,293
Per CWS	48,773	28,313	20,460
<b>Total ORS - Maintenance Expenses</b>	<b>196,841</b>	<b>160,588</b>	<b>36,253</b>
<b>(E) General Expenses</b>			
<b>Salaries &amp; Wages</b>			
9 To annualize office salaries for the test year.			
Per ORS	(69,985)	(40,591)	(29,394)
Per CWS	(28,970)	(16,814)	(12,156)
<b>Office Supplies &amp; Other Office Expense</b>			
10 To remove nonallowable amounts from office supplies and other office expenses.			
Per ORS	(41,144)	(23,880)	(17,264)
Per CSW	(127)	(74)	(53)
<b>Regulatory Commission Expense</b>			
11 To amortize current rate case expenses over a three-year period.			
Per ORS	(207,386)	(120,367)	(87,019)
Per CWS	(145,464)	(84,427)	(61,037)
<b>Pension &amp; Other Benefits</b>			
12 To annualize pension and other benefits associated with the adjusted test year salaries.			
Per ORS	(40,464)	(23,469)	(16,995)
Per CWS	65,675	38,117	27,558

Carolina Water Service, Inc.  
Docket No. 2011-47-WS  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended September 30, 2010

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<b>Non-Utility Miscellaneous Income and Expenses</b>			
13 To remove non-utility income and expenses.			
Per ORS	(13,059)	(7,579)	(5,480)
Per CWS	0	0	0
<b>Total ORS - General Expenses</b>	<b>(372,038)</b>	<b>(215,886)</b>	<b>(156,152)</b>
<b>(F) Interest on Customer Deposits</b>			
14 To annualize interest on customer deposits.			
Per ORS	1,277	741	536
Per CWS	0	0	0
<b>(G) Depreciation Expense</b>			
15 To annualize depreciation expense for known and measurable plant in service.			
Per ORS	(47,505)	(33,483)	(14,022)
Per CWS	33,938	18,392	15,546
<b>(H) Amortization of Contributions in Aid of Construction (CIAC)</b>			
16 To annualize the amortization of CIAC.			
Per ORS	(13,190)	(7,691)	(5,499)
Per CWS	(17,617)	(8,696)	(8,921)
<b>(I) Taxes Other Than Income</b>			
17 To adjust payroll taxes associated with the adjusted test year salaries.			
Per ORS	(7,045)	(4,086)	(2,959)
Per CWS	12,185	7,072	5,113
18 To adjust gross receipts and utility/commission taxes after the accounting and pro forma adjustments using a factor of .00951022 (.003 for SCDOR and .00651022 for PSC/ORS.)			
Per ORS	8,106	3,775	4,331
Per CWS	294	251	43
<b>Total Per ORS -Taxes Other Than Income</b>	<b>1,061</b>	<b>(311)</b>	<b>1,372</b>

**Carolina Water Service, Inc.**  
**Docket No. 2011-47-WS**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended September 30, 2010**

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<b>(J) Income Taxes</b>			
19 To adjust state and federal income taxes after accounting and pro forma adjustments. See Audit Exhibit SGS-6.			
Per ORS	279,710	(300,251)	579,961
Per CWS	(160,620)	(507,594)	346,974
<b>(K) Interest During Construction (IDC)</b>			
20 To eliminate IDC for rate making purposes. Construction work in progress was not included in rate base; therefore, IDC is eliminated as an addition to net income.			
Per ORS	(9,437)	(5,477)	(3,960)
Per CWS	(9,437)	(5,477)	(3,960)
<b>(L) Interest on Debt</b>			
21 To eliminate interest expense from operating expenses. Adjusted interest expense will be used to compute an operating margin.			
Per ORS	(653,687)	(379,400)	(274,287)
Per CWS	180,333	(121,130)	301,463
<b>(M) Customer Growth</b>			
22 To adjust for customer growth after accounting and pro forma adjustments. The growth factors of 1.19126% for water and .87421% for wastewater were provided by the Water and Wastewater Department.			
Per ORS	14,337	0	14,337
Per CWS	0	0	0
<b>(N) Gross Plant in Service</b>			
23 To reflect adjusted vehicles allocated to CWS.			
Per ORS	(365,155)	(211,936)	(153,219)
Per CWS	(191,515)	(111,155)	(80,360)
24 To adjust gross plant in service for net additions documented as of June 2011.			
Per ORS	1,876,401	1,010,439	865,962
Per CWS	1,251,683	893,630	358,053

**Carolina Water Service, Inc.**  
**Docket No. 2011-47-WS**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended September 30, 2010**

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
25 To reduce capitalized salaries, taxes, and benefits associated with Operating Expenses Charged to Plant.			
Per ORS	(69,745)	(40,452)	(29,293)
Per CWS	(48,773)	(28,313)	(20,460)
26 To include plant for water project that should be capitalized.			
Per ORS	45,500	45,500	0
Per CWS	0	0	0
27 To adjust for computer allocation updates and removal of a portion of the Customer Care and Billing System.			
Per ORS	(397,643)	(230,792)	(166,851)
Per CWS	0	0	0
28 To remove excess book value according to previous orders.			
Per ORS	(743,227)	(431,369)	(311,858)
Per CWS	0	0	0
29 To remove non-allowable plant.			
Per ORS	(508,123)	(398,314)	(109,809)
Per CWS	0	0	0
Total Per ORS	<u>(161,992)</u>	<u>(256,924)</u>	<u>94,932</u>
<b>(O) Accumulated Depreciation</b>			
30 To adjust for depreciation expense, retirements and nonallowable plant.			
Per ORS	<u>682,310</u>	<u>319,673</u>	<u>362,637</u>
Per CWS	<u>120,359</u>	<u>69,856</u>	<u>50,503</u>
<b>(P) Cash Working Capital</b>			
31 To adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit SGS-7.			
Per ORS	<u>(120,743)</u>	<u>(64,281)</u>	<u>(56,462)</u>
Per CWS	<u>32,176</u>	<u>26,934</u>	<u>5,242</u>
<b>(Q) Contributions in Aid of Construction (CIAC)</b>			
32 To adjust CIAC to reflect contributions after the test year.			
Per ORS	<u>(856,576)</u>	<u>(560,954)</u>	<u>(295,622)</u>
Per CWS	<u>0</u>	<u>0</u>	<u>0</u>

Carolina Water Service, Inc.  
Docket No. 2011-47-WS  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended September 30, 2010

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
33 To adjust CIAC to reflect the amortization of CIAC expense as a result of ORS Adjustment 16.			
Per ORS	13,190	7,691	5,499
Per CWS	0	0	0
Total ORS CIAC	(843,386)	(553,263)	(290,123)
<b>(R) Customer Deposits</b>			
34 To adjust for interest on customer deposits as a result of Adjustment #14.			
Per ORS	(1,277)	(741)	(536)
Per CWS	0	0	0
35 To adjust to reflect correct customer deposits balance per books.			
Per ORS	(10,791)	0	(10,791)
Per CWS	0	0	0
Total ORS Customer Deposits	(12,068)	(741)	(11,327)
<b><u>Proposed Increase</u></b>			
<b>(S)</b>			
36 To adjust water and sewer service revenues for ORS's recalculation of the Company's proposed rate increase.			
Per ORS	2,699,890	1,973,636	726,254
Per CWS	2,470,877	1,966,875	504,002
<b>(T)</b>			
37 To adjust miscellaneous revenues for ORS's recalculation of the Company's proposed rate increase.			
Per ORS	269,437	114,115	155,322
Per CWS	0	0	0
<b>(U)</b>			
38 To adjust for uncollectible accounts associated with the Company's proposed rate increase.			
Per ORS	(805)	(341)	(464)
Per CWS	(238,469)	(221,241)	(17,228)



**Carolina Water Service, Inc.**  
**Docket No. 2011-47-WS**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended September 30, 2010**

<u>Description</u>	<u>\$ Combined Operations</u>	<u>\$ Water Operations</u>	<u>\$ Sewer Operations</u>
<b>(V)</b>			
39 To adjust gross receipts and utility/commission taxes associated with the Company's proposed increase using a factor of .00951022 (.003 for SCDOR and .00651022 for PSC/ORS.)			
Per ORS	28,232	19,852	8,380
Per CWS	2,471	1,967	504
<b>(W)</b>			
40 To adjust state and federal income taxes associated with the Company's proposed increase. See Audit Exhibit SGS-6.			
Per ORS	1,124,660	790,841	333,819
Per CWS	852,950	666,952	185,998
<b>(X)</b>			
41 To adjust for customer growth after the proposed increase. The growth factors of 1.19126% for water and .87421% for wastewater were provided by the Water and Wastewater Department.			
Per ORS	18,917	14,206	4,711
Per CWS	0	0	0

**Carolina Water Service, Inc.**  
**Docket No. 2011-47-WS**  
**Computation of Depreciation and Amortization Expense**  
**For the Test Year Ended September 30, 2010**

	Combined Operations \$	Water Operations \$	Sewer Operations \$
<b><u>Depreciation Adjustment</u></b>			
Gross Plant @ September 30, 2010	52,220,287	17,252,817	34,967,470
Add/Remove			
Net Plant Additions @ June 2011	1,876,403	1,010,440	865,963
Capitalize Well Project	45,500	45,500	0
Non-Allowable Plant	(508,123)	(398,314)	(109,809)
Capitalized Time from Wage Adjustment	(69,745)	(40,452)	(29,293)
Less:			
Organization @ 9/30/10	(110,429)	(82,784)	(27,645)
Land @ 9/30/10	(268,191)	(178,189)	(90,002)
Vehicles @ 9/30/10	(654,785)	(379,775)	(275,010)
Computers @ 9/30/10	(2,115,498)	(1,227,835)	(887,663)
<b><u>Net Plant</u></b>	50,415,419	16,001,408	34,414,011
<b>Plant Depreciation @ 1.5% (66.67 years)</b>	<b><u>756,231</u></b>	<b><u>240,021</u></b>	<b><u>516,210</u></b>
<b><u>Vehicles @ 9/30/10</u></b>	289,630	167,985	121,645
Less: Fully Depreciated Vehicles	(35,508)	(20,595)	(14,913)
	254,122	147,390	106,732
<b>Vehicle Depreciation @ 16.67% (6 years)</b>	<b><u>42,362</u></b>	<b><u>24,570</u></b>	<b><u>17,792</u></b>
<b><u>Computers @ 9/30/10</u></b>	1,717,855	997,043	720,812
Less: Fully Depreciated Computers	(165,402)	(95,999)	(69,403)
	1,552,453	901,044	651,409
<b>Computer Depreciation @ 12.5% (8 years)</b>	<b><u>194,057</u></b>	<b><u>112,631</u></b>	<b><u>81,426</u></b>
<b>Less: Amortization of Excess Book Value</b>	<b><u>(29,069)</u></b>	<b><u>(16,872)</u></b>	<b><u>(12,197)</u></b>
<b>Total Depreciation</b>	<b><u>963,581</u></b>	<b><u>360,350</u></b>	<b><u>603,231</u></b>
<b>Less: Per Books Depreciation</b>	<b><u>1,011,086</u></b>	<b><u>393,833</u></b>	<b><u>617,253</u></b>
<b>ORS Adjustment</b>	<b><u>(47,505)</u></b>	<b><u>(33,483)</u></b>	<b><u>(14,022)</u></b>
<b>Company's Adjustment</b>	<b><u>(17,185)</u></b>	<b><u>(2,841)</u></b>	<b><u>(14,344)</u></b>
<b><u>Amortization of CIAC Adjustment</u></b>			
Gross CIAC @ 9/30/10	(21,678,187)	(7,110,134)	(14,568,053)
CIAC Additions After Test Year	(856,576)	(560,954)	(295,622)
<b>Total CIAC</b>	<b><u>(22,534,763)</u></b>	<b><u>(7,671,088)</u></b>	<b><u>(14,863,675)</u></b>
<b>CIAC Amortization @ 1.5% (66.67 years)</b>	<b><u>(338,021)</u></b>	<b><u>(115,066)</u></b>	<b><u>(222,955)</u></b>
<b>Less: Per Books Amortization of CIAC</b>	<b><u>(324,831)</u></b>	<b><u>(107,375)</u></b>	<b><u>(217,456)</u></b>
<b>ORS Adjustment</b>	<b><u>(13,190)</u></b>	<b><u>(7,691)</u></b>	<b><u>(5,499)</u></b>
<b>Company's Adjustment</b>	<b><u>(17,617)</u></b>	<b><u>(8,696)</u></b>	<b><u>(8,921)</u></b>

Carolina Water Service, Inc.  
Docket No. 2011-47-WS  
Computation of Income Taxes  
For the Test Year Ended September 30, 2010

After Accounting & Pro Forma Adjustments			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	7,940,473	2,421,790	5,518,683
Less: Operating Expenses	5,901,733	2,688,271	3,213,462
Net Operating Income Before Taxes	2,038,740	(266,481)	2,305,221
Less: Annualized Interest Expense	776,022	210,036	565,986
Taxable Income - State	1,262,718	(476,517)	1,739,235
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	63,136	(23,826)	86,962
Less: State Income Taxes Per Book	21,770	12,635	9,135
<b>Adjustment to State Income Taxes</b>	<b>41,366</b>	<b>(36,461)</b>	<b>77,827</b>
Taxable Income - Federal	1,199,582	(452,691)	1,652,273
Federal Income Taxes %	35.0%	35.0%	35.0%
Federal Income Taxes	419,854	(158,442)	578,296
Less: Federal Income Taxes Per Book	181,510	105,348	76,162
<b>Adjustment to Federal Income Taxes</b>	<b>238,344</b>	<b>(263,790)</b>	<b>502,134</b>
<b>Total Adjustment to Income Taxes</b>	<b>279,710</b>	<b>(300,251)</b>	<b>579,961</b>
After Applicant's Proposed Increase			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	10,908,995	4,509,200	6,399,795
Less: Operating Expenses	5,929,965	2,708,123	3,221,842
Net Operating Income Before Taxes	4,979,030	1,801,077	3,177,953
Less: Annualized Interest Expense	776,022	210,036	565,986
Taxable Income - State	4,203,008	1,591,041	2,611,967
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	210,150	79,552	130,598
Less: State Income Taxes As Adjusted	63,136	(23,826)	86,962
<b>Adjustment to State Income Taxes</b>	<b>147,014</b>	<b>103,378</b>	<b>43,636</b>
Taxable Income - Federal	3,992,858	1,511,489	2,481,369
Federal Income Taxes %	35.0%	35.0%	35.0%
Federal Income Taxes	1,397,500	529,021	868,479
Less: Federal Income Taxes As Adjusted	419,854	(158,442)	578,296
<b>Adjustment to Federal Income Taxes</b>	<b>977,646</b>	<b>687,463</b>	<b>290,183</b>
<b>Total Adjustment to Income Taxes</b>	<b>1,124,660</b>	<b>790,841</b>	<b>333,819</b>

**Carolina Water Service, Inc.**  
**Docket No. 2011-47-WS**  
**Cash Working Capital Allowance**  
**For the Test Year Ended September 30, 2010**

	\$	\$	\$
<u>After Accounting &amp; Pro Forma Adjustments</u>	<u>Combined Operations</u>	<u>Water Operations</u>	<u>Sewer Operations</u>
Maintenance Expenses	2,946,438	1,090,641	1,855,797
General Expenses	<u>1,555,355</u>	<u>902,772</u>	<u>652,583</u>
Total Expenses for Computation	4,501,793	1,993,413	2,508,380
Allowable Rate	<u>12.50%</u>	<u>12.50%</u>	<u>12.50%</u>
Computed Cash Working Capital	562,725	249,177	313,548
Cash Working Capital - Application Per Books	<u>683,468</u>	<u>313,458</u>	<u>370,010</u>
<b>Cash Working Capital Adjustment - ORS Accounting &amp; Pro Forma Adjustment</b>	<b><u>(120,743)</u></b>	<b><u>(64,281)</u></b>	<b><u>(56,462)</u></b>
Cash Working Capital Adjustment - CWS	<u>32,176</u>	<u>26,934</u>	<u>5,242</u>

Carolina Water Service, Inc.  
Docket No. 2011-47-WS  
Return on Equity  
Capital Structure at September 30, 2010

Combined Operations

Description	(Note) Capital Structure	Application Per Books				After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase				
		Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	
Long-Term Debt	\$ 180,000,000	50.11%	\$ 12,022,108	6.58%	3.30%	\$ 791,055	\$ 11,793,651	6.58%	3.30%	\$ 776,022	\$ 11,793,651	6.58%	3.30%	\$ 776,022
Members' Equity	179,185,409	49.89%	11,967,701	-5.89%	-2.94%	(704,710)	11,740,279	6.76%	3.37%	794,065	11,740,279	22.39%	11.17%	2,628,612
Totals	\$ 359,185,409	100.00%	\$ 23,989,809		0.36%	\$ 86,345	\$ 23,533,930		6.67%	\$ 1,570,087	\$ 23,533,930		14.47%	\$ 3,404,634

Water Operations

Description	Capital Structure	Application Per Books				After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase				
		Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 180,000,000	50.11%	\$ 3,470,437	6.58%	3.30%	\$ 228,355	\$ 3,192,039	6.58%	3.30%	\$ 210,036	\$ 3,192,039	6.58%	3.30%	\$ 210,036
Members' Equity	179,185,409	49.89%	3,454,731	-43.15%	-21.53%	(1,490,721)	3,177,593	-9.26%	-4.62%	(294,249)	3,177,593	31.37%	15.64%	996,674
Totals	\$ 359,185,409	100.00%	\$ 6,925,168		-18.23%	\$ (1,262,366)	\$ 6,369,632		-1.32%	\$ (84,213)	\$ 6,369,632		18.94%	\$ 1,206,710

Sewer Operations

Description	Capital Structure	Ratio	Application Per Books				After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 180,000,000	50.11%	\$ 8,551,671	6.58%	3.30%	\$ 562,700	\$ 8,601,612	6.58%	3.30%	\$ 565,986	\$ 8,601,612	6.58%	3.30%	\$ 565,986
Members' Equity	179,185,409	49.89%	8,512,970	9.23%	4.60%	786,011	8,562,686	12.71%	6.34%	1,088,314	8,562,686	19.06%	9.51%	1,631,938
Totals	\$ 359,185,409	100.00%	<u>\$ 17,064,641</u>		<u>7.90%</u>	<u>\$ 1,348,711</u>	<u>\$ 17,164,298</u>		<u>9.64%</u>	<u>\$ 1,654,300</u>	<u>\$ 17,164,298</u>		<u>12.81%</u>	<u>\$ 2,197,924</u>

Note: ORS used the capital structure of Utilities, Inc., the parent company.